

17 Aug 2020

Sebastien Henry  
Australian Energy Market Commission  
PO Box A2449  
Sydney South NSW 1235

Dear Sebastien,

**RE: System Services Rule changes Consultation Paper**

Enel Green Power (EGP) welcomes the opportunity to respond to the Australian Energy Market Commission's (AEMC's) Consultation Paper, "System Services Rule Changes."

Founded in 2008, and part of Enel Group, EGP builds and operates large scale renewable generation capacity in energy markets around the world. EGP operates in 27 countries on 5 continents with a managed capacity of over 46 GW and over 1,200 plants. EGP is the largest privately owned renewable energy company in the world, generating approximately 100 TWh of renewable electricity from hydro, solar, wind and geothermal resources every year.

The National Electricity Market (NEM) is transitioning to a power system dominated by variable renewable generation capacity. It is important therefore the NEM energy only market design is sufficiently flexible to support this transition, and appropriately incentivises the competitive provision of the various system services, such as frequency response, inertia and reserves, necessary to ensure a reliable and stable future power system.

While the rule requests are focused on addressing these needs, they cover a complex array of issues and potential interdependencies that in EGP's opinion require further policy development before they can be expressed and consulted on as rule changes. Each rule request proposes a specific approach to an essential system service for which a range of potentially competing alternatives exist. In our view, all credible alternatives should be evaluated to ensure that the rule requests represent the most efficient market design solutions for achieving their intended objectives

The rule requests also appear to have been crafted with little attention to technological neutrality. With the exception of the fast frequency response (FFR) mechanism, they appear focused on increasing potential revenue opportunities for conventional synchronous generation capacity. This is at odds with the direction of the energy transition which will see the share of synchronous generation in the power system continue to decline in a carbon constrained world. It therefore important that any changes in the NEM's design contemplated for essential system services ensure the participation of new and emerging emissions free technologies that will inevitably dominate the future power sector.

In EGP's view, the Energy Security Board (ESB) post 2025 market reform program - supported by some 60 members from a diverse background comprising industry, academia, government and regulators - is the better forum for considering many interrelated issues, complexities and interdependencies posed by the 6 rule requests.

In its development of a long-term market design to support the transition, the ESB work is considering essential services in a broader and more holistic context, including:

- which essential services to implement;
- different procurement and delivery mechanisms (such as markets versus more administrative arrangements); and
- the interdependencies between different services.

The ESB's policy development work is well progressed and the ESB is anticipated to make a decision on a proposed optimal market design by the end of 2020. It is expected shortly to release a consultation paper on key design elements that will provide industry with a further opportunity to present their views on the key policy considerations relating to essential system services.

In this process, EGP has will continue to advocate for the following key market design principles to be considered in the development of new essential systems services frameworks:<sup>1</sup>

- Where possible the default position should be to create markets for the provision of essential services. Competition and markets generally promote better outcomes for consumers than centralised decision making and planning;
- Whether markets or other arrangements are implemented for essential services, they should allocate risks, cost and accountability for decisions to those best placed to manage them, as this will lower costs for consumers;
- Whatever market redesign is implemented should be durable and adaptive across a range of credible future scenarios and establish clear and consistent rules, as this will provide participants with the confidence to participate and invest;
- Markets or other arrangements implemented for essential services must be technologically neutral, so they encourage consumer needs to be met at lowest possible cost and encourage innovation.
- Whatever markets or other arrangements are adopted for essential services must be intrinsically coherent with the energy transition (i.e. they should recognise a future power system that is dominated by renewable technologies);
- For competitive markets in essential services to work effectively, market participants will need access to transparent, accurate and timely information to make decisions; and
- Costs to consumers will be minimised if markets or other arrangements for essential services are developed in a way that is consistent with the price discovery mechanism of the energy only market (they should complement rather than distort the energy market).

EGP is of the view that only once the ESB's policy development process is complete, should work commence on the detailed rule changes required to implement the new market design. The current AEMC consultation appears to be putting the cart before the horse.

The ESB's market reforms will be complex and multi layered, encompassing not only essential services, but also enhanced participation of the demand side (making the market design two-sided) and a new day ahead market. As a consequence, a phased approach to implementation will likely be necessary.

In this regard, there may be value in expediting those components of the ESB's new market design that are focused on addressing more immediate grid issues as a first priority once the overall market design is confirmed. Essential services addressing system security, such as FFR, inertia and system strength

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<sup>1</sup>The market design principles underpinning these statements, with the exception of principle 5, were reproduced from the KPMG report "Electricity Market Design Principles: Identifying long term market design principles to support a sustainable energy future in Australia", A report for the Australian Energy Council, April 2018, p 4

should take priority over other design elements (such as a reserves mechanism or two-sided market etc),<sup>2</sup> and be implemented prior to 2025. These services are also interrelated, being part substitutes for one another, and should therefore be considered at the same time, so they can be implemented in a co-optimised way.

The development of specific rule changes for these services should ideally commence early next year and take into account findings of the AEMC's Investigation into System Strength frameworks, which is due to report this September.

While all of this would have the effect of postponing the AEMC's system services consultation by six months or so, we consider this rescheduling as positive in order to ensure a least cost, co-optimised and technologically neutral essential system services framework is ultimately introduced into the NEM.

Please feel free to contact Con Van Kemenade, Head of Regulatory Affairs, on 0439399943 to discuss anything we have raised in this submission.

Yours faithfully,



Javier Blanco

Country Manager

Enel Green Power Australia

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<sup>2</sup> We note for example that the reliability standard has not been breached in the NEM to date and that AEMO directions are typically focused on addressing system security issues.